

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SSO-00 USIE-00 NSCE-00 INRE-00

CIAE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-07 PA-04

RSC-01 PRS-01 SP-03 SS-20 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

NIC-01 DRC-01 SWF-02 CEA-02 STR-08 SAM-01 AGR-20

HEW-08 EURE-00 /201 W

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O R 101455Z JUN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 5283

INFO AMEMBASSY BERN

AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 7977

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: ITALIAN ECONOMIC STABILIZATION PROGRAM - DOMESTIC
AND INTERNATIONAL DEVELOPMENTS

PASS TREASURY FROM WIDMAN/TEMPLEMAN

REF: (A) ROME 7933 (B) ROME 7514

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1. SUMMARY: IN CRISIS ATMOSPHERE ITALIAN GOVERNMENT

OFFICIALS MET CONTINUOUSLY OVER WEEKEND IN ATTEMPT TO REACH ACCORD ON DOMESTIC ECONOMIC POLICIES. FRIDAY MEETING BETWEEN GOVERNMENT AND UNIONS HAD BEEN POSTPONED BECAUSE OF INABILITY WITHIN GOVERNMENT COALITION TO AGREE ON PACKAGE OF CREDIT POLICY AND FISCAL MEASURES WHICH ARE CENTRAL TO ITALIAN ECONOMIC STABILIZATION PROGRAM. DISAGREEMENT WITHIN COALITION CENTRED ON BOTH TIMING AND STRINGENCY OF CREDIT AND FISCAL MEASURES, WITH CHRISTIAN DEMOCRATS STRESSING NEED FOR CONTAINING INTERNAL DEMAND AND REDUCING INFLATION WHILE SOCIALISTS EXPRESSED CONCERN ABOUT DEFLATIONARY IMPACT ON PRODUCTION AND EMPLOYMENT. TENSIONS CREATED BY GOVERNMENT DISARRAY HAVE BEEN AGGRAVATED BY RUMORS OF POSSIBLE LIRA DEVALUATION AND FURTHER WEAKENING OF LIRA, WHICH SINCE FEBRUARY 1973 HAS DEVALUED OVER 18 PERCENT, ACCORDING TO BOI INDEX. OVER WEEKEND ITALIAN PRESS DEVOTED EXTENSIVE COVERAGE TO POSSIBLE EXTERNAL SOURCES OF FINANCIAL ASSISTANCE FOR ITALY, SPECIFICALLY A \$1 BILLION LOAN FROM WEST GERMANY AND EC COMMISSION PROPOSALS FOR SOME TYPE OF CONCENTRATED COMMUNITY ASSISTANCE. FOR MEMBERS IN SEVERE BALANCE OF PAYMENTS DIFFICULTIES. END SUMMARY.

2. AS REPORTED REF A GOVERNMENT-UNION MEETING SCHEDULED FOR AFTERNOON JUNE 7 WAS POSTPONED BECAUSE OF DISAGREEMENT WITHIN GOVERNMENT COALITION ON DETAILS OF ITALY'S ECONOMIC STABILIZATION PROGRAM. GOVERNMENT MINISTERS MET CONTINUOUSLY DURING WEEKEND (JUNE 7, 8, AND 9) IN EFFORT TO IRON OUT DIFFERENCES WHICH HAVE CAUSED CONCERN HERE ABOUT POSSIBILITY OF ANOTHER GOVERNMENT CRISIS. IN PREPARATION FOR TALKS WITH UNIONS, INTRA-GOVERNMENTAL DISCUSSIONS COVERED RANGE OF TOPICS INCLUDING TAX INCREASES, PRICES, INCREASING CHARGES ON PUBLIC SERVICES, AGRICULTURE, HEALTH REFORM AND INVESTMENT IN SOUTH. WHILE GENERAL AGREEMENT HAS BEEN REACHED ON MOST OF THESE SUBJECTS, SOCIALISTS (PSI) AND CHRISTIAN DEMOCRATS (DC) WERE UNABLE TO AGREE ON CREDIT AND FISCAL POLICY COMPONENTS OF ECONOMIC PROGRAM. SOCIALISTS HAVE, IN FACT, THREATENED TO LEAVE THE COALITION IF GOI ADOPTS FURTHER DEFLATIONARY POLICIES WHICH SOCIALISTS FEAR WOULD SLOW DOMESTIC

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GROWTH AND CREATE UNEMPLOYMENT. THEIR CRITICISM OF GOVERNOR CARI'S PROPOSALS FOR TIGHTER CREDIT AND HIGHER TAXES ON ALL INCOME GROUPS (REF B) HAS BEEN ESPECIALLY BITTER.

3. SPEAKING FOR PSI, HEAD OF DEVELOPMENT FUND FOR SOUTH MANCINI URGED A LOOSENING, ON A SELECTIVE BASIS, OF CREDIT RESTRICTIONS IN CONJUNCTION WITH

SELECTIVE TAX INCREASES. IN RESPONSE, TREASURY SECRETARY COLOMBO FOR THE CHRISTIAN DEMOCRATS INSISTED THAT IT WAS TOO EARLY TO RELAX CREDIT RESTRICTIONS AND THAT GIVING UP THIS TOOL FOR RESTRAINING INTERNAL DEMAND WOULD RESULT IN NEW INFLATIONARY PRICE SPIRAL. EFFORTS TO AGREE ON NEW PACKAGE OF FISCAL MEASURES WERE EQUALLY FRUITLESS. EVIDENTLY GOVERNOR CARLI HAS CALCULATED NEED FOR SOME 3,7000 BILLION LIRE ADDITIONAL IN TAXES, WHILE DC ESTIMATES NEED FOR NEW TAX LEVIES AT 3,000 BILLION LIRE AND SOCIALISTS AT 2,000 BILLION LIRE. NOT ONLY IS THERE DISAGREEMENT OVER SIZE OF TAX LEVY BUT SOCIALISTS AND CHRISTIAN DEMOCRATS DIFFER OVER HOW TAXES ARE TO BE RAISED. SOCIALISTS CALL FOR A SELECTIVE TAX POLICY INVOLVING BOTH INCREASES IN INDIRECT TAXES ON LUXURY CONSUMPTION ITEMS AND INCREASES IN DIRECT TAXATION OF HIGHER INCOME GROUP (THOSE EARNING ABOVE 3-4 MILLION LIRE A YEAR). CHRISTIAN DEMOCRATS, HOWEVER, ARGUE THAT UNLESS FISCAL PACKAGE INCLUDES BOTH INCREASES IN INDIRECT TAX TRATES AS WELL AS INCREASE IN DIRECT TAXATION OF ALL INCOME GROUPS, IT WILL FAIL TO HAVE DESIRED EFFECT OF DAMPENING CONSUMER DEMAND.

4. THERE IS GROWING CONCERN IN ITALY ABOUT SERIOUSNESS OF ITALIAN ECONOMIC CRISIS AND DIFFICULTIES ITALY FACES IN FINANCING ITS BALANCE OF PAYMENTS DEFICIT. THIS IS CLEARLY EVIDENT IN EXTENSIVE PRESS COVERAGE JUNE 7-10 CONCERNING POSSIIBILITY OF FOREIGN FINANCIAL ASSISTANCE. FINANCIAL PRESS CARRIED REPORTS THAT WEST GERMANY IS PLANNING TO LOAN ITALY \$1 BILLION IN EXCHANGE FOR WHICH ITALY HAS OFFERED PART OF GOLD RESERVES (VALUED AT MARKET PRICE) AS COLLATERAL. ON JUNE 10, HOWEVER, ROME FINANCIAL DAILY IL GLOBO REPORTED A DENIAL BY BANK OF ITALY SPOKESMAN WHO SAID REPORTS CONCERNING POSSIBLE GERMAN LOAN WERE WITHOUT FOUNDATION. ADDING TO CONFUSION, HOWEVER, MILAN'S CORRIERE DELLA SERA SPECULATES THAT THERE

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STILL MAY BE SOME TRUTH IN RUMOR, GIVEN POSSIBILITY THAT TREASURY MINISTER COLOMBO MAY HAVE NEGOTIATED LOAN IN QUESTION WITHOUT CONSULTING GOVERNOR CARLI. ITALIAN PRESS HAS ALSO VIEWED WITH INTEREST DISCUSSIONS OF EC NINE FINANCE MINISTERS IN LUXEMBOURG ABOUT POSSIBLE PROGRAM FOR UNITED COMMUNITY ACTION TO HELP MEMBER STATES IN ECONOMIC DIFFICULTIES. COMMISSION PROPOSAL TO PERMIT EUROPEAN MONETARY COOPERATION FUND TO BORROW IN EUROMARKET AND RELEND TO MEMBERS IN SEVERE FINANCING STRAITS HAS BEEN GREETED AS EVIDENCE OF OVERDUE REALIZATION ON PART OF EC THAT HEALTH OF ITALIAN ECONOMY IS CRUCIAL TO VIABILITY OF COMMUNITY. BEAUDRY

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